

Message Text

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ACTION EB-08

INFO OCT-01 EUR-12 IO-14 ISO-00 AID-05 CIAE-00 COME-00

FRB-01 INR-10 NSAE-00 ICA-20 TRSE-00 XMB-04

OPIC-06 SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15

STR-07 CEA-01 L-03 H-02 DODE-00 PA-02 ABF-01

ARA-14 EA-12 /151 W

-----098039 151513Z /46

R 151400Z AUG 78

FM AMEMBASSY BERN

TO SECSTATE WASHDC 6733

INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS

USMISSION GENEVA

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

AMCONSUL ZURICH POUCH

UNCLAS SECTION 1 OF 2 BERN 3945

USMTN ALSO FOR MISSION

USOECN ALSO FOR EMBASSY

PASS TREAS FRB

EO 11652: NA

TAGS: EFIN, SZ

SUBJ: SWISS FINANCIAL REVIEW: WEEK AUG 7-11, 1978

1. SUMMARY: DOLLAR FELL AGAIN TO RECORD LOW SF 1.65;
GOLD ROSE TO RECORD HIGH. SNB PRES LEUTWILER SAID
SWISS ECONOMY IS BEING HIT HARD BY DEVELOPMENTS ON
FOREX MARKET, INVESTMENT RESTRICTIONS NOT LIKELY TO
BE REMOVED SOON, SF OVER-VALUED IN RELATION TO DM.
CONSUMER PRICES UNCHANGED, WHOESALE PRICES DECLINED.
END SUMMARY.

2. FOREX GOLD:

DOLLAR DECLINED THROUGHOUT THE WEEK FROM MON HIGH
SF 1.7087. DOLLAR SLIDE CONTINUED IN CALM AND THIN
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TRADING WITH SLIGHT IMPROVEMENT THURS ON NEWS SNB
AND FED COUNCIL WOULD MEET AUG 16 TO CONSIDER ADDITIONAL
MEASURES TO HOLD DOWN SF. TURBULENCE ERUPTED FRI,
SENDING THE DOLLAR NEARLY 400 POINTS LOWER THAN
THURS'S CLOSE TO END WEEK AT SF 1.6460. GOLD CLOSED
UP \$10 AT \$211.15. CREDIT SUISSE BELIEVES DEMAND FOR
GOLD IS STRONGEST FROM US, WHEREAS TRADITIONAL CENTERS

REMAIN CALMER AND MAY EVEN BE NET SELLERS. RATES

8/7 (OPEN) 8/11 (CLOSE)

SPOT DOLLAR 1.6910 1.6460

FORWARD DISCOUNTS

(PCT PER ANNUM)

1 MONTH 8.30 8.75

2 MONTHS 7.63 8.02

3 MONTHS 7.43 7.83

6 MONTHS 7.50 7.59

12 MONTHS 7.38 7.41

SF/DM 83.67 83.65

GOLD 204.75 211.25

3. CAPITAL MONEY MARKETS:

A) ZURICH STOCK MARKET REGISTERED ACTIVE TURNOVER IN HECTIC TRADING. IMPROVING US STOCK MARKET MORE IMPORTANT FACTOR THAN DISORDER ON FOREX MARKET. SKA INDEX CLOSED UP 1.3 PCT AT 257.8. AVERAGE YIELD

CONFEDERATION BONDS DECLINED TO 3.37. THREE-MONTH EUROFRANC RATE DECLINED TO 5/8 PCT, BUT 12-MONTH RATE STEADY AT 1-1/8 PCT. MARKET REMAINS VERY LIQUID.

B) SNB STATEMENT AS OF AUG 7 SHOWS FOREX HOLDINGS UP SF 2.014 BILLION OVER PREVIOUS WEEK TO TOTAL SF 20.593 BILLION. SNB GIRO ACCOUNTS TOTAL SF 7.996 BILLION, UP SF 1.795 BILLION FROM JULY 24 LEVEL.

4. LEUTWILER: SNB PRES LEUTWILER SAID IN AUG 12 INTERVIEW IN TAGES ANZEIGER THAT SWISS ECONOMY IS UNCLASSIFIED

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BEING HIT HARD BY DEVELOPMENTS ON FOREX MARKET. RE-ITERATED SNB INFLUENCE ON EXCHANGE RATE DEVELOPMENTS IS LIMITED AND EXPRESSED DISAPPOINTMENT MEASURES TAKEN TO STEM RISE OF SF HAVE NOT BEEN MORE EFFECTIVE. ADMITTING THAT THERE HAD BEEN AN EXPLOSIVE INCREASE IN THE MONETARY BASE AND THAT 1978 SNB GOAL FOR MONEY SUPPLY GROWTH (5 PCT) WILL NOT BE ACHIEVED, HE SAID INFLATION WAS NOT AN IMMINENT THREAT; DECREASING IMPORT PRICES AND GENERALLY UNFAVORABLE ECONOMIC SITUATION ARE IMPORTANT DEFLATIONARY FACTORS. COMMENTING ON SPECULATION INVESTMENT RESTRICTIONS ARE ABOUT TO BE LIFTED, LEUTWILER SAID THE RESTRICTIONS ARE NOT PERMANENT BUT DOUBTED ANY DECISION IN THIS REGARD WOULD BE TAKEN AS EARLY AS THE AUG 16 SNB MEETING WITH THE FED COUNCIL. ON THE RELATION OF THE SF TO THE DM, HE SAID SF IS OVER-VALUED. FOREX MARKETS

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USMTN ALSO FOR MISSION

USOECN ALSO FOR EMBASSY

PASS TREAS FRB

ARE WRONG IF THEY ARE EXPECTING A SOFTENING OF
GERMAN MONETARY POLICY. THE SF/DM DISEQUILIBRIUM WILL
BE RECTIFIED WHEN IT IS REALIZED THAT SNB MONETARY
POLICY IS RUNNING PRACTICALLY IN PARALLEL WITH
BUNDESBANK POLICY.

5. INDICATORS:

A) CONSUMER PRICE INDEX UNCHANGED IN JULY AT 101.0
(SEPT 1977 EQUALS 100), OR 1.1 PCT ABOVE JULY 1977.
INCREASES RECORDED FOR FOOD (UP 0.2 PCT) AND HEALTH
CARE (UP 1.6 PCT); DECREASES IN HEATING/ELECTRICITY
(DOWN 1.4 PCT) AND IN TRANSPORT/COMMUNICATIONS COSTS
(DOWN 0.4 PCT).

B) WHOLESALE PRICE INDEX DECLINED 0.5 PCT IN JULY

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TO 143.0 (1963 EQUALS 100) AND STANDS 3.6 PCT BELOW
JULY 1977. JULY RESULT COMPARES WITH A 0.2 PCT DECLINE
IN JUNE, WHEN THE YEAR-ON-YEAR FALL WAS ALSO 3.6 PCT.

C) UNEMPLOYMENT DECLINED 9.6 PCT IN JULY TO 7,627
PERSONS OR 12.8 PCT FEWER THAN A YEAR EARLIER; UNEMPLOY-

MENT RATE IS 0.3 PCT. NUMBER OF JOB OPENINGS DECLINED 3 PCT TO 8,305 COMPARED TO 8,565 AT THE END OF JUNE AND 6,719 AT END JULY 1977.

D) UNION BANK OF SWITZERLAND STUDY SHOWS THE FINAL BUDGET ACCOUNTS OF THE 22 CANTONS CLOSED 1977 WITH AN OVERALL DEFICIT OF SF 518.8 MILLION COMPARED TO A DEFICIT LARGER THAN SF 1 BILLION IN 1976. IN TEN CANTONS REVENUES EXCEEDED EXPENDITURES.

6. COMMENT:

A) INFORMAL POLL BY SCHWEIZERISCHER HANDELSZEITUNG INDICATES SWISS ECONOMIC CIRCLES DO NOT WANT A TWO-TIER FRANC EXCHANGE RATE. PAPER SAYS NO ECONOMIC SECTOR, WHATEVER ITS DIFFICULTIES, WANTS SUCH MEASURES; MOST SECTORS BELIEVE SWITZERLAND HAS EXHAUSTED ALL POSSIBILITIES OF SOLVING EXCHANGE RATE DIFFICULTIES. THE HOTEL TRADE HAS BEEN SUGGESTING A SYSTEM OF DIRECT CLEARING WITH THE SNB; RECEIPTS IN THE MAJOR CURRENCIES WOULD GO DIRECTLY TO SNB, BYPASSING THE BANKS. BUT CREATION OF A COMMERCIAL SF AND A FINANCIAL SF IS NOT BEING DISCUSSED IN BUSINESS CIRCLES AT PRESENT TIME. INTERVIEWED FOR SAME ARTICLE, SWISS WATCH FEDERATION PRES SAID DOLLAR EXCHANGE RATE IS BIGGEST PROBLEM FACING HIS INDUSTRY, NOT ONLY FOR NORTH AMERICAN SALES BUT BECAUSE HALF OF ALL SALES TO LATIN AMERICA AND 70 PCT OF SALES TO HONG KONG, SINGAPORE, AND AUSTRALIA ARE DOLLAR-DENOMINATED. ONLY EXCHANGE RATE IMPROVEMENT HAS BEEN WITH JAPANESE. PRES OF MACHINE TOOL BUILDERS ASSN SAID FALL OF DM HAD HIT HIS INDUSTRY HARD SINCE UNCLASSIFIED

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GERMANY IS PRINCIPAL CUSTOMER. THE INDUSTRY HAS ALREADY UNDERTAKEN ALL POSSIBLE SELF-HELP MEASURES TO IMPROVE COMPETITIVENESS.

B) NEUE ZUERCHER ZEITUNG COMMENTED AT END OF WEEK THAT RECOVERY OF DOLLAR IS OUT OF QUESTION, SINCE BUNDESBANK WILL NOT PROP IT UP. INCREASE IN US WHOLE-SALE PRICE INDEX IS LATEST ECONOMIC INDICATOR DRIVING DOLLAR DOWN.

C) DER BUND SAYS THERE HAS BEEN AN ABRUPT CHANGE OF SCENERY ON SWISS MONETARY MARKET IN RECENT WEEKS. THERE HAS BEEN A MEDIUM-SIZE FLOODING OF MARKET WHICH CAN BE SEEN IN INCREASE IN GIRO ACCTS AT SNB FROM SF 6.200 BILLION ON JULY 24 TO SF 7.996 BILLION ON AUG 7. DEVELOPMENT IS RELATED TO UPWARD FLOATING OF SF; APPARENTLY ALARM BELL AT SNB WENT OFF WHEN DOLLAR DECLINED BELOW SF 1.70. SNB HAS REVERSED PRIORITIES, RELEGATING INFLATIONARY CONCERN TO SECOND PLACE BEHIND A MORE STABLE SF. HAD TOP ECONOMIC POWER GROUPS NOT BEEN ON SUMMER VACATION AT END OF JULY, THEY WOULD HAVE UNDOUBTEDLY APPEALED TO SNB TO TAKE THIS KIND OF

ACTION. BUT SWAP ARRANGEMENTS UNDERTAKEN BY SNB DO NOT PROMISE MUCH SUCCESS AND FUNDAMENTAL SOURCES OF PROBLEM REMAIN.

D) AGEFI WONDERS WHETHER FRB PRES MILLER WILL WIN HIS BET THAT US INTEREST RATES HAVE PEAKED. IF THEY HAVE PEAKED, DOES IT MEAN THAT MILLER HAS CHANGED PRIORITIES AND NOW GIVES GREATER IMPORTANCE TO MAINTAINING CURRENT LEVEL OF ECONOMIC ACTIVITY THAN TO FIGHT AGAINST INFLATION. CROWLEY

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